



## Infrastructure Push

This article is based on [“Infrastructure push now, fiscal consolidation later”](#) which was published in The Hindu on 08/02/2021. It talks about the concerns related to infrastructure development in India.

Presently, the Indian economy is facing an acute economic crisis, triggered Covid-19 pandemic. The National Statistical Office has estimated that the economy would shrink by 7.7%. Against this background, [Budget 2021](#) has provided a reasonable stimulus to infrastructure growth.

However, apart from concerns emanating from the rising fiscal deficit, infrastructure development in India has its own issues. Thus, if the Indian economy wants to reap intended benefits and minimize risks of contemplated fiscal stimulus, there is a need to carry out reforms that impede the development of Infrastructure.

### Some of the Proposed Budget Initiatives

- Setting up of a Development Finance Institution (DFI) with an initial capital of ₹20,000 crores, to serve as a catalyst for facilitating infrastructure investment.
- The budgeted increase in capital outlay would provide the central government's share to the [National Infrastructure Pipeline \(NIP\)](#).
- An important initiative pertains to the launching of a National Monetisation Pipeline.
  - This would be the first practical step towards asset monetization.
- In order to manage the non-performing assets of public sector banks, there is a proposal to set up a Bad Bank.

### Issues Related To Infrastructure Development

- **Revenue Shortfall:** Slippage in revenue estimates may not be ruled out on account of the realization of lower than anticipated increases in nominal GDP growth, direct tax buoyancy, and disinvestment targets.
- **Lesser Funds With States:** The Union government has accepted the [15<sup>th</sup> Finance Commission report recommendation](#), according to which vertical share of tax devolution from the center to states has been reduced 42% to 41%.
  - Moreover, the central government increasingly resort to the imposition of cesses which are almost permanent have reduced the shareable pool.
- **Issues Associated With Burgeoning Fiscal Deficit:** Infrastructure development in India will be funded by fiscal stimulus.
  - This can be reflected as the Centre has indicated taking the fiscal deficit to 4.5% of GDP by 2025-26.
  - However, the rising fiscal deficit can cause macro-economic stability issues like high inflation, crowding out, a downgrade of international ratings, etc.
- **Issues Associated With Bad Bank:** Finding buyers for bad assets in a pandemic hit economy

will be a challenge, especially when governments are facing the issue of containing the fiscal deficit.

- Also, the **bad bank idea** is like shifting loans from one government pocket (the public sector banks) to another (the bad bank).
- **Structural Problems:** Due to land acquisition delays and litigation issues, the rate of implementation of projects is very slow on global standards.
  - Further, getting approvals are very difficult in terms of land access, environmental clearances, impending litigation in court delays the infrastructure projects.

## Way Forward

- **Multi-Stakeholder Approach:** The success of the infrastructure expansion plan would depend on other stakeholders of the pipeline playing their due role.
  - These include State governments and their public sector enterprises and the private sector.
  - In this context, the Fifteenth Finance Commission has recommended the setting up of a High-Powered Intergovernmental Group to re-examine the fiscal responsibility legislations of the Centre and States.
- **National Infrastructure Pipeline:** The NIP is a step in the right direction.
  - However, there is a need to facilitate the assimilation of data and information from all the stakeholders like Central and State Governments, Urban Local Bodies, Banks and Financial Institution, PE funds, and private investors, both local and foreign on one platform to increase accountability and transparency in the infrastructure sector.
- **Banking Reforms:** So long as Public sector bank managements remain beholden to politicians and bureaucrats, their deficit in professionalism will remain and subsequently, prudential norms in lending will continue to suffer.
  - Therefore, the debate regarding setting up a bad bank must be preceded by proper implementation of holistic reforms in the banking sector, as envisaged under the IndraDhanush plan.

## Conclusion

Huge fiscal stimulus, provided by the government in the Budget 2021 is a step in the right direction. However, it needs to address structural and macroeconomic stability concerns, emanating from high public expenditure.

### ***Drishti Mains Question***

If the Indian economy wants to reap intended benefits and minimize risks of contemplated fiscal stimulus, there is a need to carry out reforms that impede the development of Infrastructure. Analyze.